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UNCLAS SECTION 01 OF 02 LAGOS 000353

SENSITIVE
SIPDIS

STATE PASS USTR FOR AGAMA
STATE PASS USAID FOR NFREEMAN, GBERTOLIN
STATE PASS EXIM FOR JRICHTER
STATE PASS OPIC FOR ZHAN, MSTUCKART, JEDWARDS
STATE PASS TDA FOR LFITTS, PMARIN
DOC FOR 3317/ITA/OA/KBURRESS
DOC FOR 3310/USFC/OIO/ANESA/DHARRIS
DOC FOR USPTO-PAUL SALMON
DOJ FOR MARIE-FLORE KOUAME
TREASURY FOR RHALL, DPETERS

E.O. 12958: N/A
TAGS: EFIN ECON EINV ETRD PGOV NI
SUBJECT: NIGERIA: GOVERNMENT INTERVENTION TO HALT STOCK MARKET'S
DECLINE ALARMS INVESTORS

Ref: A. Lagos 290
¶B. Lagos 266
¶C. Lagos 97
¶D. Lagos 95

¶1. (SBU) Summary: The Government of Nigeria adopted a series of measures and commissioned a Presidential Advisory Team to halt the decline in the Nigerian stock market. Since March, the market recorded a 30 percent loss in market capitalization. Industry interlocutors feared that the policy measures, in addition to being unsustainable and inefficient, would scare off foreign investors. The measures will not ultimately stop the market's decline and accusations of market manipulation point to deeper problems in the Nigerian public equity market. End Summary.

Government Intervenes to Arrest Market Downturn
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¶2. (U) The total market capitalization on shares listed on the NSE rose from N2 trillion in 2004 ($17 billion) to approximately N12.6 trillion ($108 billion) in March 2008, at which point the market began to decline, slumping to N8.8 trillion ($75 billion) in late August. The All-Share Index (ASI) declined by 31 percent from 66,116.56 to 43,119.47.

¶3. (U) On August 26, the Government of Nigeria (GON) adopted a series of measures to arrest the market downturn. Key to the recovery plan are provisions permitting quoted companies on the Nigerian Stock Exchange (NSE) to buy back 20 percent of their shares, and pegging downward price movement on any stock to a maximum of 1 percent daily while retaining the 5 percent ceiling for upward price movement. Other measures included a reduction of market operators' fees, including a 50 percent reduction for NSE's fees; limiting the number of new listings on the market; introduction of a capital market stabilization fund; and a review of trading rules and regulations. Banks were also encouraged to extend margin loan repayment periods and inject new funds into the market. The GON also commissioned a 16 member Presidential Advisory Team, headed by the Minister of Finance and comprised of, among others, the Attorney General, Minister of Planning, Governor of the Central

Bank of Nigeria (CBN), industrialist Aliko Dangote, and the heads of three Nigerian commercial banks. The commission was charged with developing strategies to curtail the continued drop in share prices, while proffering medium to long term measures that would boost investors' confidence.

¶4. (U) Two days after the intervention, market capitalization recorded a 7.2 percent gain. The ASI closed at 46,312.27. The market recorded a comparatively higher volume of stocks traded and price appreciation for 84 stocks.

Allegations of Market Manipulation

¶5. (SBU) Financial industry contacts told EconOff on August 29 that recent upward movement in stock prices is not sustainable. Bismarck Rewane, Managing Director of Financial Derivatives, said that because the intervention could not last indefinitely, investors would leave the market once the intervention stops. He blamed previous interventions for the stock market's current state. Notably, he accused the NSE of being behind a strange, week-long period in early June, when stock prices only ticked up after a two month bear market. Malcolm Gilroy, Vice President of United Bank for Africa Global Markets, said that intervention was the inflection point at which the stock market began a sharp decline. According to Gilroy, a few sophisticated investors, alarmed by the NSE's meddling, sold all their equity holdings. (Note: Gilroy wouldn't say who those investors were, but implied they were foreigners. End Note)

¶6. (SBU) In the local press, NSE officials denied any intervention,

alternately blaming the strange occurrence on a computer glitch or a change in trading rules that permitted only the sale of large blocks of stock. However, in a conversation on Sept 3, the NSE's General Manager for Compliance, Henry Onyekuru, all but admitted to Lagos Econoffs that the NSE had a hand in the June irregularity. When asked what happened in June, Oneykuru noted that the market had been bearish and said that the NSE had decided on its own to "adjust the market's valves" to arrest the decline. He did not elaborate, but indicated he thought manipulating the exchange to stop bear markets was a natural function of the NSE.

One Percent Floor to Drive
Out International Investors

¶7. (SBU) According to Malcolm Gilroy, the one percent floor on downward price movements will only serve to hurt liquidity in the equity markets, limiting the ability of large institutional investors to rebalance portfolios as necessary. Gilroy said this measure, out of the whole package, was a "heavy-handed and crass way of intervention" and would effectively discourage sophisticated international investors from entering the Nigerian market.

¶8. (SBU) Gilroy said stockbrokers persuaded the Central Bank of Nigeria (CBN) not to force banks to call margin loans. Gilroy accused the banks of having been negligent in their lending policies, which allowed some brokers to obtain huge loans to leverage the bullish market. Nigerian banks, with a cadre of inexperienced managing directors, are now bereft of ideas on how to cover the margin losses that resulted from a market downturn.

16 "Wise men": Unqualified, Compromised

¶9. (SBU) Contacts questioned the qualifications of the 16 so-called "wise men" on the Presidential Advisory Team, saying that none of them had any international experience in managing a stock market crisis. Gilroy believes equity market experts from countries that had undergone similar crises and experienced stockbrokers needed to be on the commission. The inclusion of local businessmen and bank managing directors, once again, signified the confluence of interests between the regulators and the market players, he opined.

¶10. (SBU) Comment: These measures won't stop the decline in the Nigerian stock market, or at least they shouldn't if the market operated in a transparent and open fashion. The stabilization fund could, in theory, prop up share prices for some time by injecting fresh capital into the market. Predictably, how the fund will be capitalized, who will control it and how investment decisions will be made have not been articulated. The allegation that the NSE manipulated the exchange to permit only upward price movements is serious. If true, it calls into question the legitimacy the Nigerian public equity market. Certainly the NSE Compliance Manager has an unusual view of the role of a stock exchange. End Comment.

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